

The Impact of Economic Liberalization in Egypt

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A Research Paper

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A Research Paper

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Overview

*Information available
as of 4 June 1982
was used in this report.*

President Sadat initiated the *infitah*, or liberalization policy, in 1973 in an attempt to engage the US Government directly in the search for a solution to the Arab-Israeli conflict and, in so doing, lay the groundwork for the revitalization of the Egyptian economy. Broadly speaking, this policy called for a political alliance with the West, especially the United States, and an economic alliance with the West (again, primarily the United States), the moderate oil-producing Arab states, and Egypt.

The liberalization policy is an exercise in pragmatic international politics and was born of the internal political and economic crisis that Egypt faced in the late 1960s and early 1970s. As such, it is a policy designed to respond to immediate problems rather than one intended as a long-term basis for future political and economic development. The Egyptians have an economic system that they believe performs some key functions fairly well. Underpinned by a social contract between the central government and the public, Egyptians believe that this system—although inefficient—has provided internal political stability. Hence, liberalization—by removing selected controls on private investment, foreign exchange, and trade—was meant to modify current constraints on the existing system. It did not mean, and so far has not meant, a shift to a new system.

In practice, the policy of liberalizing the Egyptian economy has created a new set of problems, many of which could undo the internal stability so carefully nurtured under President Nasir. Because this policy has had no firm long-term objectives, the government has tended to pursue an erratic course in its implementation. The economy has exhibited solid growth in the past few years, but its basic structure has not changed. Recent growth was largely financed by foreign earnings from oil, worker remittances, the Suez Canal, and tourism. The resources from this growth have been used to permit large increases in the consumption of all forms of goods by society. In the eyes of many Egyptians, however, the result has been the emergence of a new class of rich merchants who indulge in a display of wealth that is widely criticized and eventually could cause serious domestic problems.

The “get rich quick” atmosphere created under liberalization has set in motion political forces unforeseen by Sadat. A liberalization policy that allows both new opportunities for the acquisition of goods and increases in incomes is generally accepted, but even those groups who have benefited

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reject aspects of the policy that have led to corruption and an erosion of social and civil morals. Religious fundamentalists and the left support the call for a return to the quest for social equity and the obligation of the state to provide it. The presence of American businessmen and US Government involvement in what are viewed as internal matters have also raised growing fears about the erosion of national sovereignty.

In the early stages of liberalization, President Sadat was somewhat successful in avoiding extensive domestic political criticism about his new alliance with the United States and his call for increased foreign investment. He used the overwhelming desire of the population for peace with Israel and a better life to fend off potentially destabilizing political action by his opponents. But by 1978-79 this tactic led to increasing economic costs that the nation could not bear over the long run. In addition, the new policy created jealousies between those who were benefiting and those who were not. Sadat failed to realize that economic liberalization without political liberalization would set in motion the very forces that he sought to contain.

President Mubarak is now faced with the task of rectifying the basic weaknesses of the economy as well as the new problems created by Sadat's version of liberalization. He, like his predecessors, will be attracted to the notion that the social contract is still a viable political tool for preserving national unity. He seems to recognize, however, that he must develop the country politically as well as economically. So far, it appears he will pursue a course that reemphasizes the obligations of the state to preserve social equity and national sovereignty. To do this, he will underscore the role of the central government and the public sector and move to reduce the inefficiencies of both. It is doubtful that he will be any more successful than Sadat in moving the economy solidly away from the principles upon which it has operated since the late 1950s.

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Contents

	<i>Page</i>
Overview	iii
Origins of the Liberalization Policy	1
The Egyptian Political Economy: 1973	1
The Policy Decisionmaking Context: 1973	2
The Evolution of the Liberalization Policy	3
The Prevailing System: The Social Contract	4
Stages of Liberalization	5
The Effects of Liberalization on Egyptian Society	9
Altered Patterns of Social and Economic Interaction	11
The Erosion of Social and Civil Morality	12
Income Distribution: The New Moneyed Class	12
New Dynamism in the Economy	12
Selected Group Attitudes and Perceptions	13
Students	13
The Military	14
Religious Groups	15
Political Dissidents	15
Professional and Intellectual Elites	16
The Bureaucracy and the Public Sector	18
Private-Sector Groups	19
Worker Associations	21
Journalists and Writers	21
Women's Groups	22
Large Landholders	24
Political Stability and Policy Change in Post-Sadat Egypt	25
Political Change and the Social Contract	25
Mubarak and the Present System	26
Political Action: Limitations and Options	26
Altering the Liberalization Policy To Reduce Political Tensions	27

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The Impact of Economic Liberalization in Egypt

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Origins of the Liberalization Policy

In 1973 Egypt embarked on a new experiment in an effort to engage the United States as a direct participant in the quest for Middle East peace. An integral part of this foreign affairs initiative was the desire to revitalize the national economy. Liberalization, or as it is more commonly known the Open Door policy, thus began as a combined strategy. The main economic aim was to join Arab surplus capital and Western industrial technology with Egyptian entrepreneurial and managerial talent and labor into a development equation that spelled "growth" for the economy. Concomitantly, the primary political aim was to prevent further ruinous and costly military action against Israel.

At the core of Egypt's economic problems lay the body of ill-conceived and poorly administered policies that had evolved since the late 1950s. Sadat, sensing that fundamental changes in the operation of the economy could come only through renewed emphasis on efficiency, sought to engage the international business sector in joint ventures with local private and public firms to get the economy off dead center. In so doing, an increasingly heated debate on the issue of private versus public control of the economy was set in motion.

The Egyptian Political Economy: 1973

The sequence of events leading the Egyptian Government in a socialist direction began in the 1950s. The nationalization of the private sector began first with foreign-owned industrial and financial enterprises in 1956 and was extended to large domestic firms in 1960 and 1961. The imposition of strong government control in virtually all aspects of the country's economic life soon followed. Although not precluding private investment, it naturally discouraged new or additional private initiatives. Government policies led to the flight of capital and the emigration of many of the more able industrial entrepreneurs and managers.

Moreover, the bureaucracy that was created to manage the economy demonstrated little ability to cope with the rapid increase in its responsibilities.

The death of Nasir in September 1970 and the increasing accumulation of capital in the Arab oil-producing nations ultimately led President Sadat and his advisers to reexamine past economic policies. A major question was whether the bureaucracy could ever effectively provide central direction and stimulation to an economy beset with major problems.

The political situation clearly set the tone for the planned redirection of economic policy. In 1972 Egypt's formal break with the Soviet Union was initiated. Egypt's military thrust across the Suez Canal in 1973 was in part a calculated political move to break the stalemate with Israel and then seek economic and military aid from the West. If the West did not respond, the Egyptian economy would deteriorate further. Sadat's political and military strategy in the early 1970s, therefore, was closely linked to his plans for the Egyptian economy.

Soviet/Egyptian differences came to a head in the summer of 1973. Egypt sought a formal separation of military aid from economic assistance; the Soviets would not agree. Following these discussions, the Egyptian Cabinet decided to rescind all existing and proposed investment protocols with Moscow and to turn to the West for future assistance.

While charting Egypt's new course, Sadat had to guard carefully the image of the state as a protector of the poor and underprivileged. He had to preserve the gains of the Nasir era in terms of the sense of social justice that prevailed at the time. Attempts had been made to better the lot of the masses, the peasant as well as the industrial worker, and this was a basic element of the Nasir legacy with which Sadat had to contend.

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Two terms used in the text require comment. The term infitah (meaning, literally, the opening) refers to the political and economic policy initiated by the Egyptian Government in 1973 that called for liberalization. It is used interchangeably with liberalization or the Open Door policy. The term social contract refers to an informal contract between the central government and Egyptian society at large. Basically, it relates to the commitment of the state to provide goods and services to the public in exchange for nonpolitical or apolitical behavior on the part of the public. Political behavior or action is permissible if it is in support of the government. The social contract is designed to forestall or eliminate political action that might pose a threat to the internal security of the state.

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The government did not want to establish a "new capitalism" but sought to create a freer economic setting. Activating productivity in the public sector, creating a capital market, giving confidence to Arabs and Americans alike, and stimulating new capital flows, not new loans, could only be accomplished in this more liberal setting.

The government viewed this as a "change within a system, not a change to a new economic system." It wanted to initiate selective decontrol of foreign trade and the foreign exchange regimen and thus encourage private investment, which was believed critical to the

economic growth goals of liberalization. This was perceived as a program of renewal involving revitalization rather than rejection of the social program begun under Nasir.

The Policy Decisionmaking Context: 1973

The character of the liberalization policy, its content, and its interpretation reflected the absence of sufficient data on which to base sound economic policy judgments. Sadat was bored by economics, and there were very few well-informed and qualified technicians

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Figure 1. President Sadat acknowledges cheers of crowds following the cease-fire declared after the October 1973 Arab-Israeli war.



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around him who could successfully devise and implement a liberalization policy, especially one largely dictated by circumstances and by a naive understanding of the global economy. Many of the problems that emerged after 1974 stemmed from major defects in the design of the policy and the inability of the Sadat regime to place liberalization in a long-term context. It was a policy initiated in an atmosphere of crisis, the bits and pieces of which seemed to dictate this or that objective. As the nature of the crisis changed, liberalization was increasingly the victim of the "band-aid" mentality of the various economic czars who would be called on to chart its course.

Some development economists have suggested that modifications in Egypt's socialist experiment might have brought about greater efficiency and that a new policy (that is, liberalization), involving a major departure from central planning and control of the economy, was not necessarily required. Both the Yugoslav and Romanian experiences in market socialism have been cited as possible models that Egypt might have followed. Aside from the technical reasons put forth in support of this thinking, it was believed that liberalization would generate difficult domestic political problems. Therefore, a less radical departure from

the status quo might produce less dramatic results but would avoid stirring up social problems that would lead to political instability.

Such an approach did not suit Sadat. The intent to liberalize the economy was part of the evidence presented to the United States to indicate a turn away from the Soviet Union. Sadat did not believe that a minor departure from past policy was sufficient to realize his broader political objective. This is why he pursued the somewhat duplicitous policy of assuring the West that he was serious in his intent to undertake far-reaching liberalization while, simultaneously, assuring the Egyptian people that Egypt's socialism was an integral part of its future. It is questionable whether he or any of his key advisers saw any inconsistency in this position.

The Evolution of the Liberalization Policy

The difference in philosophy and outlook between the Egyptian Government and its new partner, the United States, soon put Sadat on the defensive. He had to appear sympathetic to US policy concerns regarding

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the reconstruction of the economy. Simultaneously, he had to demonstrate sovereignty of action domestically to quiet criticism of US influence.

The regime's continuing commitment to the social contract between the government and people sharply reduced the probability of major economic policy reform. There were inherent imperfections in this hastily constructed liberalization policy, stemming from unreliable economic information on which to reach sound decisions and, in general, little recognition that such data were necessary. Irrespective of the intent of the government, the advent of liberalization introduced new political stimuli into the society and significantly altered individual and group political responses. Conversely, the fallout from piecemeal policy changes, crisis management, luck, and increased popular expectations induced an extremely fatalistic and lethargic bureaucratic attitude. This reduced momentum and blurred recognition of the need for significant alterations in the conduct of economic affairs.

The Prevailing System: The Social Contract

To understand the liberalization policy, it is important to understand the Egyptian economic system within the framework of a social contract between the political leadership and society. Any pragmatic and intelligent policymaker could justifiably state that "the system has been tested and it works" despite inconsistencies with sound economic growth and development theory. The Egyptian system has developed its own internal balances, and it has assumed a character consistent with the cultural context in which it operates.

Two concepts are more or less fundamental to, and provide the underlying rationale for, the current character of the Egyptian economy. Together they constitute a form of social contract. First, there has been a strong movement evident since the 1950s aimed at the depoliticization of the Egyptian people. This effort is pervasive, spreading to virtually all types of interest groups—student, religious, agrarian, labor, and any ideologically based political parties. Second, as a result the political will of the country has been increasingly concentrated at the center, and at present it is almost a one-man show. All other political structures have been reduced to impotence.

This depoliticization has been generally accepted, thus securing one main element of the contract. In performance of its share of the contract, the government has assumed the responsibility of providing goods and services—often at subsidized prices—to the population at large. Designated as the establishment of social justice, the acceptance of this obligation nevertheless saddled an unprepared and incapable central government administration with many responsibilities that it has frequently performed badly. This paternalistic state of affairs has on occasion led the government, repeatedly unable to maintain the pace, to assume new obligations in order to overcome inadequacies in the performance of old obligations.

The expansion of the package of goods and services, due to the changing character of the population's needs and aspirations as well as bureaucratic inefficiency, creates conditions that overtax management capability and economic resources. A set of government policies—such as guaranteed employment of university graduates—designed to resolve a problem of the moment becomes an additional obligation of the central administration. It represents one more basis on which further government obligations can be expanded.

The exchange of political rights for the provision of goods and services has been fairly successful in providing an atmosphere of political stability. Within this system, it is at least possible to experiment in social and economic change. The purely economic cost involved in the performance of the contract may be viewed as inordinately high, but this cost must be assessed against the prospect of political instability, which poses dire consequences not only for Egypt but probably for the Middle East as well.

In Egypt there are few coherent group interests. Depoliticization is more easily maintained in such circumstances. There is a tendency for the government to overcommit itself to the population, often leading to the development of excessive public demands on an ailing administrative structure. This in turn tends to create individual, not group, frustrations.

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Figure 2. Egyptians vote in the 1979 elections; voting is mainly pro forma approbation of government policy and involves no real political choices.



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The limitations of the economy to generate sufficient resources to fulfill the bargain presently are compensated in part by foreign aid, worker remittances, and Suez Canal revenues. Egypt has always relied on such temporary expedients, and in the main, foreign aid has succeeded in preserving internal political stability.

Stages of Liberalization

Within the context of the "system" as just described, three phases in the implementation of the liberalization policy have emerged: 1974-77, 1977-79, and 1980-81. These phases are not entirely discrete, but each is characterized by certain dominant themes.

The initial period began with the passing of the Foreign Investment Law in 1974 and ended, more or less, with the riots over price increases of subsidized consumer goods in January 1977. It was perhaps the only period that witnessed the emergence of strong government sentiment for decisive economic change and sufficient political license to pursue it actively. It was also the period when the sharp disparity between domestic and foreign perceptions of the liberalization policy became apparent.

During this period, the government demonstrated an increasing ability and willingness to come to grips with the problems of implementation. Simultaneously, it was made more aware of the probable political and social costs of pressing for liberalization, costs that it was not prepared to incur. Because so many of the early difficulties dealt directly with easing foreign investor entry into Egypt, the government felt increasingly uneasy about proposing changes in laws and executing regulations that seemed to favor foreigners.

As a matter of policy and law, the incentive structure was basically established and improved, although a number of laws remained in effect that constrained private-sector development. Implementation of this incentive structure was deficient, but a mood of guarded optimism emerged among many private-sector entrepreneurs.

A problem that proved particularly critical was the government's decision to stimulate the economy through an appeal to the private sector to establish

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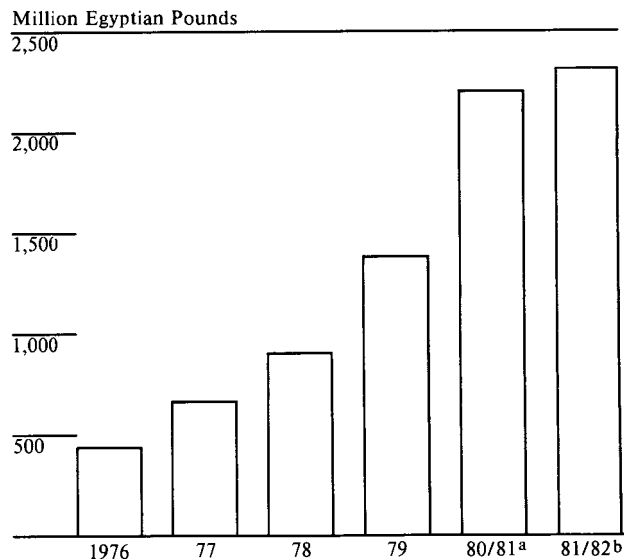
investments in free zones rather than gaining access to domestic markets. This approach was taken to avoid confrontation with the public sector, to minimize the visibility of the foreign presence on Egyptian soil, and to mitigate the need for constitutional reform on such issues as the rights of workers (such as representation on boards and bonuses). The private sector, however, was not interested in free zones.

A corollary to this was the effort to revitalize the economy through private-sector stimulation without addressing directly the basic problems of the economy. Contradictory signals ensued, and investment projects based on existing distortions, inefficiencies, and inequities in the economy ran the risk of turning unprofitable in the long run as economic policies changed. This, in addition to a general lack of business confidence, created an attitude of short-term profit taking totally inconsistent with a major tenet of the liberalization policy—the creation of long-term, capital-producing investments that would ease the foreign exchange position of the country.

The informal part of the private sector (small private business and industry) has survived by feeding on the inefficiencies of the public-sector companies, filling gaps that this sector has been unable to fill or was indifferent about. It was low profile, survival oriented, and had little access to newer technologies and equipment. It clearly was not well equipped managerially or technologically to spearhead growth and change in the economy. Inward looking and conservative, it had not dealt with a highly competitive environment and required new skills if it was to interact with foreign investors.

Finally, the government—possibly as a means of gaining popular support for its controversial policy—undertook an extensive campaign to create an atmosphere of growth, change, and progress. Projects by the score were reported in the press. Although put forth as fully concluded agreements, it was obvious that investments were coming in at a trickle—certainly nothing approximating the figures carried in the press. This led to growing criticism, and increasingly the question was asked, “Where are the benefits of liberalization?”

Figure 3
Egypt: Subsidy Spending



^a The six-month period of January to June 1980 is excluded from this figure because Egypt changed its fiscal year from the calendar year to a July to June basis in 1980. Subsidy spending during the six-month period of January to June 1980 amounted to LE 640 million.

^b IMF estimate.

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The movement of policy reform met its Waterloo in the riots of January 1977, and thereafter there was little inclination for Sadat and his inner circle of advisers to consider economic reform. The riots and the manner in which they occurred raised many questions. Sadat seemingly succumbed to pressure from the IMF, the World Bank, and the US Government for subsidy policy change. The terms of the IMF agreement had been at issue since 1972, and the government had consistently refused to accept them—presumably because of the possible negative political consequences. Sadat stated repeatedly that he could not “ask the Egyptian people to tighten their belts.” Yet, in 1977 he precipitated the very action he wished

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to avoid. Thereafter, the Sadat government attempted to seek political gains from liberalization without implementing basic economic reforms, particularly any that might affect the sensitive issue of subsidies.

In its quest for economic growth without an inordinate political price, the Sadat government was aided by two factors—one of its own choosing, the other totally unexpected:

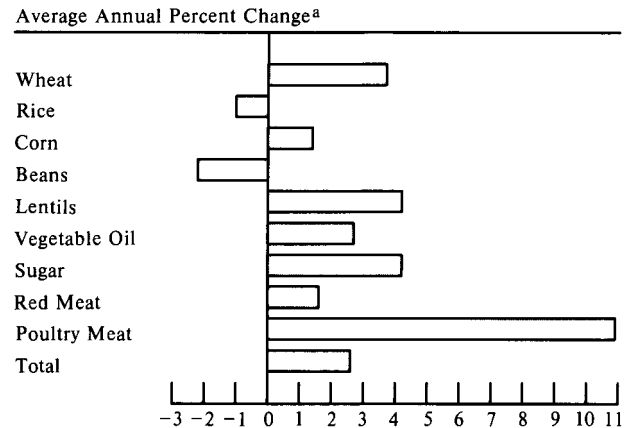
- To broaden the impact of liberalization, the decision was made to allow consumption, through imports, to rise sharply. This would create an atmosphere of progress even if it proved temporary.
- Over time, and especially after the Camp David accords, the policy of permitting relatively unfettered imports was aided by enhanced foreign earnings.

The government did not foresee the magnitude of these increases. This was a complete change from 1976 when there were minimal oil exports and worker remittances, and the mentality of reform changed with it.

Two emerging themes now interacted to produce a major change in the drift of liberalization. Foreign investment had not come in a manner anticipated. In an attempt to stimulate it further, the government amended the Foreign Investment Law of 1974. A new law in 1977 opened import substitution opportunities for investors. What had started out as a policy to induce foreign investment to ease foreign exchange earnings constraints now shifted to a policy of opening domestic markets for foreign investor exploitation.

Concurrently, the policy of permitting higher levels of consumption through imports became increasingly feasible because of increased foreign exchange earnings. The policy of creating an atmosphere of economic well-being without paying an unacceptable political price appeared to work. A "reform" liberalization policy oriented toward easing future foreign exchange earnings constraints no longer appeared relevant or needed. But these new consumption levels could not be sustained by the domestic economy because its character had not changed significantly.

Figure 4
Egypt: Changes in Per Capita Consumption of Nine Basic Foods, 1977-81



^a Assumes population growth of 2.87 percent a year between 1977 and 1981. This population growth rate is from US Bureau of Census data based on adjusted data from the Egyptian census of 1976.

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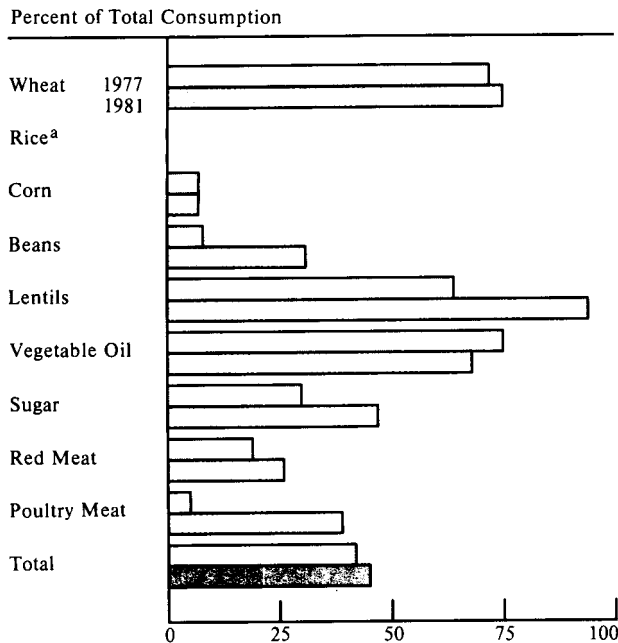
It is not entirely accurate to say that the Egyptian economy had been moved off "dead center" without a political price. Inflation and income distortion attended the increase in consumption. In a fashion seemingly endemic to developing countries, the cumulative number of economic crises spawned increasingly unmanageable situations; the potential political cost was merely put off for future payment.

The economy in 1980 reflected both the temporary buoyancy created by the performance of foreign earnings and the continuing inability to provide for a rapidly growing population on any meaningful basis. The buoyancy, rather than being used to finance imports, could have been used to ease the impact of policy reform that would have placed the economy on a sounder long-term footing. Yet, continuing the trend observable after 1977, the government turned away from reform.

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Figure 5
Egypt: Imports as a Share of Total
Consumption of Nine Basic Foods,
1977 and 1981



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The overriding concern with respect to policy change had to do with the potential for political instability that might follow. Yet, it was also apparent that the foreign exchange resource situation could change dramatically and adversely. The manner in which the government sought to remedy this situation was not by reconsidering the direction that liberalization had taken in the late 1970s. Rather, it chose to initiate a new system of controls designed to ameliorate what were thought to be the more negative effects of individual behavior under liberalization. With very few apparent benefits accruing to the population at large, the government could only view the future with alarm.

In the aftermath of Camp David and the ensuing sharp increase in political dissension, the government sought to frame new economic rules and regulations

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Table 1
Egypt: Real GDP Growth, 1970-81

Percent

Year	Growth
1970	1.8
1971	4.9
1972	3.9
1973	-0.8
1974	5.1
1975	13.7
1976	7.8
1977	7.9
1978	10.1
1979	8.7
1980 ^a	9.0
1981 ^a	8.0

^a In 1980 Egypt changed its fiscal year from a calendar year to a July-June basis. As a result, the Egyptian Government no longer estimates GDP on a calendar-year basis. The estimates of growth in 1980 and 1981 are derived from Egyptian estimates of Egyptian GDP for fiscal year 1980-81.

governing private-sector activity. The instinct to return to greater control over the economy was reasserting itself.

Although the government was clearly culpable in many respects, it was nevertheless obvious that liberalization had not produced the desired transformation. There had been little foreign investment, especially by US companies; there had been only limited technology transfer; the Arabs had lost interest, both as a result of Camp David and because of curbs placed on real estate speculation in 1978; few joint ventures between Western and Egyptian public-sector companies had been concluded; and a new class of nouveau riche had been created that posed serious social problems.

Perhaps, more importantly, was the recognition that liberalism had created a new political situation. The United States was now an integral part of the search

Figure 6. Egyptians read news of President Carter's peace negotiations in March 1978.



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for peace, and the economy appeared to be better off. All of this had been accomplished without any fundamental change in the economy's "Egyptianness"—the social contract was still in force, and the means by which the government fulfilled its obligations were essentially unchanged. The "system" was intact and had survived the fine tuning sought in 1973. By mid-1980 the Sadat government appeared to be losing interest in liberalization as a viable means of furthering economic development.

The failure of the policy to affect fundamental political and economic questions is viewed by a number of Egyptians as essentially an American concern. Egypt has to be flexible in order to maneuver with the far more powerful countries with which it must deal. If there has been any misinterpretation of the intent of liberalization, then it has not been on the part of the Egyptian Government. For the most part, Egyptian officials have been frank in indicating what they can and cannot do.

The evolution of the policy reflects these Egyptian absolutes and its effort to respond to the wishes of its powerful donors. As such it can hardly be said that liberalization is an immutable force for change or that it could ever have been. Many aspects of the policy

have been negotiable, since the regime had no desire to be pinned down or left with no room to maneuver as the occasion required. Few Egyptian economists or politicians see any inconsistency in this.

It is the imponderables that have had the most marked effect on the course of liberalization over the past eight years: the riots of 1977, the Khomeini revolution, blind luck as evidenced by the boom in oil revenues, and, finally, the death of Sadat. These are matters of destiny, and if there is anything that most Egyptians are comfortable with, it is fate.

The Effects of Liberalization on Egyptian Society

Under the Sadat regime, there was some toying with a different interpretation of political activism much as there was a similar toying with the tenets of the economic framework of the social contract. Basically, Sadat opposed a multiparty system for many of the same reasons that Nasir did. After the riots in January 1977, Sadat was willing to accept only

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Figure 7. The gap between rich and poor produces stark realities in Egypt. These street scenes in Cairo give a glimpse of the poverty that exists on a large scale.



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economic liberalization and rejected earlier experimentation with political liberalization. Therefore, political liberalization had largely ended by the spring of 1978.

There was an obvious discrepancy in going back to an essentially single-party system while continuing to advocate economic pluralism. As it was, the economic

benefits fell far too unevenly to compensate for the growing appetite of Egyptians for their fair share. Political activism of a type unwanted by Sadat was perhaps an inevitable outcome. It is in this context that one must frame the various ways that liberalization has affected Egyptian society at large.

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Figure 8. In contrast are the scenes of the more modern and wealthier sections of Cairo.

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Altered Patterns of Social and Economic Interaction
 Liberalization has had a major effect on the range of social, economic, and political interaction open to Egyptians. This is most evident in two respects: the opening of the economy to a substantial foreign presence, particularly in business and foreign assistance projects, and permitting greater numbers of Egyptians to travel to the Arabian Peninsula for

employment. Both factors have markedly increased the awareness of Egyptians, at all social levels, to disparities in their standard of living, to the lack of a range of goods and services similar to that found in other Arab countries (at least initially), and in the business sector to the virtual absence of modern business capability or understanding in private and public Egyptian enterprises.

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This increased interaction has, in turn, contributed to a number of perceptions that are important in establishing individual group assessments of liberalization. More broadly speaking, such matters as corruption, foreign influence, the erosion in social and civil morality, the lifestyles of the privileged classes, and income disparities have received far more notice than would otherwise have been the case.

The Erosion of Social and Civil Morality

A widespread perception of a decline in civil and social morals is evident among all groups interviewed. Although descriptions of social erosion vary, two themes recur:

- While it is acknowledged that bureaucratic corruption has always existed in Egypt, the breadth, scope, and amounts involved have increased significantly since liberalization. Of greatest importance was the perception that Sadat, his family, and his inner circle profited illegally.
- The attitudes of individuals toward their communal or familial responsibilities have been altered significantly by liberalization. The concept of "making it" or "getting one's share" has become the primary preoccupation of large numbers of Egyptians.

Another, but somewhat less visible, form of erosion is taking place among the families of migrant workers where the male head may be absent for long periods of time due to employment outside the country. Few studies have been able to identify clearly the long-term impact of this migration because of the relative newness of the phenomenon. Particularly significant, however, is the initial finding of one study that the value of having a large family is altered in the migrant family. If widespread, this could significantly reduce the population growth rate.

The issue of the erosion of civil morals has several dimensions, the most important of which is the religious. While perceptions of this phenomenon vary considerably from class to class, and between Copts and Muslims, there is increasing evidence of a breakdown in Egyptian society. A high level of tension and frustration exists; basic morals—honesty, compassion, civility—appear to be "verging on collapse." There is clearly a difference between those whose reaction to

this erosion is based on their religious commitment and corresponding lifestyle and those who indulge in the type of socially corrosive actions in question even as they express discomfort or concern over the way others or they themselves behave.

Income Distribution: The New Moneyed Class

Income distribution studies that posit trends on a postliberalization basis draw the conclusion that considerable distortion has resulted. Several of these studies used data collected in the last household survey, conducted in 1976, so it is not entirely clear what underlies the conclusion that liberalization has been distorting.

An International Labor Organization (ILO) study notes that economic growth now appears to have replaced equity as a primary national goal. Another study reports that there has been a reduction in government concern for equality-promoting measures.

Both studies underscore the broad-based perception that liberalization not only favored the rich but generated a large increase in the number of rich Egyptians. Signs of wealth are more evident in Egypt today than was the case in 1973. This is due to both the increase in wealth of a number of individuals as well as a greater proclivity to display one's riches in public.

The new moneyed class comprises two elements: the so-called Open Door Mafia—those who had had access to Sadat or were related to him or his wife—and the new "export-import" class—agents for every imported item imaginable. In the case of the latter, it appears that these opportunities have been somewhat more open to a broader class of people. But it is generally believed that one must have political contacts to obtain a lucrative agent position.

New Dynamism in the Economy

It is a matter of major importance that the economy—even with all of its current problems—is, nevertheless, in a dynamic rather than static stage. From the government's point of view, it is perhaps marginally preferable to have major elements of society bickering over who gets what of an increasingly larger

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economic pie with liberalization than to argue over a pie that is not any larger or indeed getting smaller without liberalization.

The difficulty with the benefits of liberalization is that the government must act decisively to realize them fully. In the meantime, political pressures will grow as the divisiveness created by the more negative effects continue. The legacy of the Nasir concept of social equity and economic egalitarianism is deep rooted. The majority of Egyptians will not understand the need to create a new economic elite—even for purposes of more rapid future economic growth—if they find their individual circumstances seriously undermined in the process. The common bond of the Nasir era was equal economic stagnation for all. For many Egyptians, that was not necessarily a bad deal.

Selected Group Attitudes and Perceptions

An analysis of a cross section of views and attitudes of representative social groups indicates that several conflicting trends have developed since the onset of liberalization. One is left with the impression that highly disparate interests, most rooted in an individual's perception of what best serves his own situation, are at work in Egypt.

The government now has a formidable task in promoting policies to which all will subscribe. Sadat had resolved this by playing on what he saw as a major weakness in Egyptian society, the highly competitive character of social relations at all levels—family, job, university, and community.

Perhaps it was politically shrewd to keep any opposition off balance by stressing competition. Liberalization seems to have evolved in a fashion where all Egyptians had the hope of gain while allowing the benefits to fall unevenly. All groups evidence this dichotomy between supporting those aspects of liberalization that are self-serving and recognizing the negative impact that liberalization has had on society as a whole.

Nonetheless, many individuals have a stake in liberalization. Those who have profited want to see it continue and hope that they can gain more in the

future. Those who have not profited want changes—some because they honestly do not believe that liberalization serves Egyptian national interests, others because they wish to see more benefits come their way. For many, this translates into the notion that “liberalization is okay, Sadatism is not.”

One very striking feature of the information coming from this survey is that consumption appears to be the common banner around which many Egyptians rally. This is the underlying concept of the social contract, and there is little that was discovered to refute the wisdom of using it as a political tool.

A more positive trend is that the younger generation appears to attach significance to the need to formulate a particularly Egyptian character to the nation's future. As the underpinning for future political development, this aspect is one of the more positive outcomes of liberalization to date.

Students

The possible reaction of student groups has been of continuing concern since the initiation of liberalization. Economic equality and national sovereignty are particularly sensitive issues among students, and both are widely perceived to have been adversely affected by the Sadat brand of liberalization. After the Khomeini revolution in Iran in 1979, religious fundamentalist student activity became an even greater concern of the government.

The continued policy of guaranteeing government employment to college graduates has partly offset individual student concern, but it is of increasingly less value as inflation erodes purchasing power. Even if this were not the case, the growing cynicism of the younger generation that is locked into the “government dole” and performing no useful tasks will ultimately lead to new political problems.

The government response to potential problems with students has been mainly to keep them busy through more exams and higher standards. Similar to its approach to society at large, the government has relied on the competitive instinct to defuse student concerns about injustice.

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Table 2
Selected Group Attitudes
Toward Liberalization ^a

	Support	Somewhat Positive	Somewhat Negative	Oppose
Students		•		
Military		•		
Religious groups				•
Dissidents			•	
Professional and intellec- tual elites		•		
Bureaucracy and public sector			•	
Private-sector groups	•			
Worker asso- ciations			•	
Journalists and writers		•		
Women's groups		•		
Large land- holders	•			

^a Gross attitudes only. Many groups have mixed attitudes toward specific aspects of liberalization.

The generally apolitical experience of the young and government tactics with respect to marshaling student energies have tended to place youths in a position of recognizing problems but having no effective means of resolving them. Temporarily, this may lead to involvement in religious fundamentalism, but in the longer term most are forced to be more pragmatic in dealing with exigencies.

The students [] reflect both an idealistic concern with the right and wrong of Egyptian society, and more particularly the liberalization policy, and the strong competitive inclination to assure that they are strategically well placed to get their share. In service of the latter interest, there was evidence of indifference to, or at least a high level of acceptance of, certain negative outcomes of the liberalization

policy (corruption, income inequality, and Westernization of Egyptian culture). Only in the area of foreign influence in Egyptian affairs was there evidence that student idealism evoked serious concern.

On balance, the issue of national sovereignty did not appear inspired by the usual concern of foreign influence over national issues. Rather, the students had a particularly Egyptian view of liberalization that they believed had been corrupted by foreign influence exercised largely through pressure on Sadat. What is at issue is not liberalization but the manner in which it has been implemented. That manner, in the opinion of most students interviewed, was conditioned by foreign (that is, US) interests.

To many students, liberalization has become identified with the Americanization of Egyptian society. The view of students on this point, however, is divided. Some definitely are in favor, and others, perhaps religiously inspired, are opposed. Liberalization (Western oriented or not), however, is wanted, largely because it appears to open more options for success. On this point there appears to be considerable agreement among those students surveyed.

The Military

Any opposition group in Egypt must find support in the Army. Although unsubstantiated, there is a widely held perception that the military, primarily through officer associations, is actively engaged in private-sector activities, particularly investments in real estate. If correct, this would have two major effects. It would increase the stake that the military has in maintaining a government sympathetic to continued private-sector development. It would tend to level income differences in the military if profits are distributed to association members. As far as the officer corps is concerned, a stake in maintaining liberalization has been established.

It is fair to say, and it is corroborated in [] military attitudes, that Egypt has a limited perception of its role as a military power in the region. Although it continues to seek to modernize its defensive capability, it does not appear willing to adopt a major

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peacekeeping role in the region. It has strategic regional interests, however, and will act to preserve them.

The Army is as politically divided as the rest of society and encompasses almost the full spectrum of political interests in Egypt. Liberalization and its effects are to be found in microcosm within the military. Common soldiers and junior officers find their income insufficient and, like their public-service counterparts, eroded by inflation. In the case of young officers, there exists a degree of dissatisfaction. The military has moved to ease this problem by increasing benefits and supplementary payments.

The issue of national sovereignty is difficult to assess. There is some dissatisfaction with the type of arms the United States has been willing to make available to the Egyptian military. This has little to do with the liberalization policy except that a major tenet of the policy was that the United States would provide assistance where the Soviets left off.

There is some concern about the possibility of increasing nationalistic fervor in the military, particularly among younger officers. In general, however, the comments received on this point indicate that, for the most part, the military stood squarely behind Sadat and now stands squarely behind Mubarak. The government is attentive to the interests of the military, and the military leadership is attentive to potential problems within its ranks.

Religious Groups

The politicization by religious groups of issues arising within the framework of liberalization stems in part from the abolition of traditional political parties under Nasir. Before then, Copts and Muslims, bound together by various political ideas, met on common ideological ground and did not rely exclusively on their religious preference as a basis for political expression. Beginning in the late 1960s, mosques and churches became the focal point for political action, reinforcing political ideals within the framework of religious tradition. When liberalization came, it was axiomatic that religiously based political action groups would emerge to represent the largest and potentially most influential opposition groups.

Muslim opposition to liberalization, aside from that inspired by Khomeini-style fundamentalism or the Muslim Brotherhood, has not been well articulated. Tracts against the prostituting effects of Americanizing Egyptian society have appeared. Opposition to the economic tenets of liberalization has also emerged, but, unlike the position taken by the left, it is rather vague about which economic system is preferred.

The increased wearing of the veil, religious fundamentalists' interruption of university classes for the conduct of prayer, and the intimidation of professors who oppose fundamentalist actions are construed as signs of more deep-seated and popular opposition to liberalization. The foreign presence and its influence on Muslim culture and society are focal points of fundamentalist concern.

It should be noted that there is strong opposition to a resurgence of fundamentalist influence, primarily among middle and upper class groups. Fundamentalism is by no means a universally popular development in Egyptian society.

Political Dissidents

The concerns of political dissidents, right or left, religiously oriented or not, center on the appropriateness and viability of Camp David and economic liberalization as stratagems that are ultimately in the interest of Egypt. Underlying themes that stem from the attitudes and views of antiregime elements relate to: the client-state relationship of Egypt with the United States; the departure from the Nasirist commitment to social justice and economic egalitarianism; reduction of the role of the state as central architect and coordinator of economic development; and erosion of Muslim tradition as the basis for future social and cultural development. Typical perceptions of these groups include:

- Foreign/Arab capital has been oriented toward quick profit and speculation, largely because the enabling legislation has been too elastic.

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- With no central plan for projects, investment was made in the specialized field of the investor—consumer goods, fast food, nonessential imports, and banking—not in more basic manufacturing-oriented endeavors.
- The structure of the economy is destroyed; there is no central coordination, and each ministry or governor obtains special legislation to take independent action.
- Egypt now has foreign exploitation in a different form (that is, different from the colonial period): the labor force is exported, especially the most skilled; banks collect deposits in Egypt but place the funds outside the country; and foreign investors do not reinvest profits but repatriate them to their own countries.
- Foreign aid is directed toward the priorities deemed most suitable by the donors.

Those who hold such views have, in many instances, profited individually from the new opportunities stemming from liberalization. Many act as consultants to the World Bank, the International Monetary Fund, and the US Agency for International Development (AID). Like many other groups, they are extremely ambivalent on the liberalization question.

The opposition arising from the initiation of the liberalization policy remains more a matter of reaction to Sadat, the leader, than to liberalization, the policy objective. The right (except for the radical religious elements) favors the private sector. It contends that Sadat's approach to liberalization almost ruined the private sector because it encouraged profiteering that undermined society's confidence in the sector. The left accepts the need for a move away from central planning, but not planning altogether. It sees the need for a private sector as long as the central productive role remains with the public sector and as long as private-sector activity is production oriented.

What many dissident elements appear to be responding to is that, under Sadat, they were increasingly restricted in their ability to maneuver politically to protect their special (and occasionally, ideological)

interests. Many in the opposition strongly resented Sadat's infringement on what they believed was their legitimate right to express views on issues. That often appeared to be more important than obtaining redress for the issues surrounding the "Open Door" policy. Practically speaking, many in the opposition do not wish to see a return to pre-1973 economic trends nor a reduction in their own revived income earning opportunities.

Professional and Intellectual Elites

A broad spectrum of professional and intellectual elites [redacted] including the legal and engineering professions, economic and management consultants, and those in the academic world (primarily political scientists and sociologists), business, and public administration.

This is a particularly important group, highly mobile and very influential in conveying ideas to the public and influencing public opinion. Since 1960 the number of persons who have attained advanced degrees, both in Western and Eastern institutions, has increased significantly. As a class, they both expect and exert pressure for political liberalization. Most surveyed have profited from the liberalization policy and favor it, whether they identify themselves politically with the left or right. As with other groups, many opinions are expressed about the ills or benefits created by that policy, but few argue that liberalization is unnecessary.

As a group, they generally view themselves as being better informed and better able to combat the problems created for them by liberalization (for example, they can more readily increase their income than other groups). Most are prone to express highly nationalistic points of view, but their nationalism is often associated with what they believe to be their own competencies. Given a different system, it is argued, Egypt has sufficient professional talent to accomplish future political and economic growth. US AID, World Bank, or other foreign consultants or experts are not necessary and will fare no better in influencing the present system that keeps Egyptians from plying their professional skills.

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Of all the groups [] we believe this group will exert the greatest influence over the future direction of liberalization. As with other groups, the Sadat government was able to stifle criticism by keeping it busy competing for income opportunities and goods. Although the intelligentsia is not satisfied with the current state of affairs, as exemplified by the crack-down in September 1981, those who must compete to maintain their place or get ahead often do not have the time or inclination to plot against the government.

The reemerged class of lawyers is roughly comprised of a small number of *infatih* lawyers with skills comparable to those found in any first-class law firm, another group of *infatih* lawyers who came out of government service, and members of the bar association who handle the usual range of legal matters. There has been sufficiently increased business stemming from liberalization for all.

Because a good deal of initial effort under the liberalization policy was directed toward developing new laws or reforming existing laws, the legal profession has been at the core of major issues involved in initiating this new policy. The legal context of liberalization has developed far faster than has the economic policy context. Therefore, a new legal class has emerged in the past few years. The growth of private business transactions, as a general matter, brought the practitioners into existing law firms or caused them to create their own firms.

This segment of the professions has profited in two ways: the legal profession has regained much of the status it held prior to Nasir, and it has virtually guaranteed itself a central role in the legal process accompanying liberalization. In accomplishing the latter, it ensured itself a profitable role in advising foreign investors and local private entrepreneurs how to steer successfully through the Egyptian legal maze. Some elements have also made a good deal of money through influence peddling. Thus, it is a group that favors liberalization in the extreme.

Those in the economic, business, public administration, engineering, or management consulting fields have profited as well. Those with degrees from US schools have been in high demand. As a professional

group, it tends to display a greed that borders on avarice. Major opportunities in consulting with international donor agencies, Arab and other foreign investors, and local private companies have increased markedly. Since many teach, they are able to draw their usual university salaries as well as considerable outside income.

Their attitude is very proliberalization, although, like other groups, they occasionally express considerable concern over whether the quality of life has increased appreciably. There has been no coalescence of opposition to liberalization in its current form from this quarter, and few within this group would contemplate outright opposition.

One segment of these professionals is considerably less happy with liberalization—those who have obtained degrees from East European and Soviet institutions. As a rule, they are not in so great demand as those who are Western educated. Most are oriented politically to the left, but few could be described as more than parlor Marxists. The economists among them have written a number of tracts that underscore the rising inequality of income distribution, the impact of inflation on poverty levels, the sins of the private sector, and the corrosive effect of liberalization on the social fabric and traditions of Egyptian society. Even so, they favor liberalization but argue for a modified form that will allow the state to maintain its central role in future economic development. This is a matter of self-interest since many are employed in central planning agencies and organizations.

Those tied to the academic professions evidence almost the full range of perceptions and attitudes regarding the impact of liberalization on themselves and on Egyptian society. Whereas economists or those in business administration have increased opportunities, those in sociology, the arts, political science, and natural sciences have not, as a rule, experienced additional income from opportunities created by liberalization. Inflation has had considerable impact on them, and as a group, they are somewhat disenchant-ed. Those [] stress the adverse aspects of

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liberalization, especially those features that appear to create avarice and greed among the population at large. Those in sociology, anthropology, and psychology are engaged in studies that tend to underscore the negative social impact of liberalization.

Overall, the professional and intellectual elites favor a form of economic and political liberalization that is professionally rewarding for themselves. They are aware and sensitive to political repression that affects them personally. They are particularly concerned with promoting the type of liberalization that permits the interests of Egypt to be defined by Egyptian professionals, not foreigners.

The Bureaucracy and the Public Sector

Public enterprise managers believe that the impact of liberalization has been largely negative. Under liberalization, public-sector firms believe they are exposed to unfair competition from the private sector, particularly in the area of consumer goods. The public sector is still required to pay high customs duties, while the "sharp" importer in the private sector can avoid these. The present legal framework of customs duties is such that the private sector has room to maneuver while the public sector does not.

The public sector is also suffering from inflated salaries that do not correspond to changes in productivity and from a brain drain to the private sector. First-class engineers and technicians are going into fields in which their training is wasted (for example, fast food operations or import activities).

Many public-sector enterprises have been exposed to severe competition from imports, especially textiles and electrical and electronic equipment. As a result, they are accumulating large inventories of goods for which there is no outlet.

It is recognized [] that there are problems within their own ranks as well. Attitudinal change in the public sector has not come easily. Generations of middle managers have grown up blaming the government for their own failings. Public-sector managers have been given more authority under liberalization, but many are afraid to exercise it because they believe that the government interprets policies inconsistently.

Basically, the concept of liberalization is not viewed as incorrect. If it had led to a restructuring of the public sector for more efficient operation, as it was initially designed to do, then it would be viewed as a sound policy. The predominant view, however, is that the private sector has not responded in the manner envisioned in 1973. What has happened is that private-sector import substitution activities have led to exorbitant profits, largely by importing components and assembling them, driving out traditional private and public producers. The privilege to indulge in such actions has been extended to only a very few within the private sector.

Civil servants surveyed believe that they are not faring well under liberalization. There does not appear to be a high level of resentment, however, and most civil servants seem content to work within the system to improve their situation. The civil servants believe that talk about corruption is often more extensive than the reality. Corruption did increase with efforts to promote foreign investment, but it is not believed to be any more widespread than before.

Initially, the officials charged with implementing the liberalization policy were advised by Sadat to short-circuit the bureaucracy. Several attempts to do so were made, but, politically, even Sadat could not hold that line. The central administration now has regained control. For this reason, the bureaucracy, while continuing to be lethargic and inefficient, is not overtly opposed to the policy. The more threatening effects of the new policy have been circumvented. The negative effect on income is mitigated by the government's adjustments in salaries and fringe benefits and the fact that those who have had other opportunities have left public service. Those that remain for the most part are very young, inexperienced, and unqualified.

With very few exceptions, this group is indifferent to the impact of liberalization. Spokesmen, particularly in the public-enterprise sector, lobby for changes in their managerial and administrative environment. The arguments put forth are not antiliberalization but seek redress for the public sector. This represents

25X1

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some attitudinal change since they are now requesting equal terms on which to compete with the private sector. If major reforms were undertaken, it is not entirely clear that the bureaucracy would be able to perform to expectations.

The largely apolitical behavior of civil servants and public-enterprise managers is consistent with the system established under Nasir. As technocrats, they tend to look at issues raised by liberalization in mainly technical rather than political terms. In recent months, the case has been made that the bureaucracy in its lethargy has performed a useful watchdog function. In slowing the implementation of the new liberal policy, they have in effect protected Egyptian national interests. By slowing down the influx of presumably antisocial foreign investor elements, they have performed a useful national service. They have been an obstacle and most probably will remain so, whatever the future direction of liberalization.

Private-Sector Groups

The failure of the Egyptian Government to undertake broad-based economic reform and to rationalize public-sector operations has meant that whatever private-sector activity did develop would be oriented toward exploiting existing distortions. As one prominent and influential private businessman put it, "I will use government-subsidized goods and services as long as I can."

Not all those engaged in private-sector operations have benefited from liberalization. A group that many experts believe has considerable potential, the informal or small industry sector, has enjoyed only marginal advantage under the terms of liberalization.

Small firms that have not incorporated under the terms of the Foreign Investment Law of 1974 have not had the range and scope of raw material imports, financing, and tax advantages that those companies organized under the 1974 law have had. Those [] are, in many instances, very dynamic and energetic businessmen. Their complaints regarding liberalization are myriad:

- Income tax policies act as a disincentive to private investment (a new tax law has been passed but has not been implemented).

- Small businesses are forced to rely on the public sector for raw materials, and the production and managerial inefficiencies of this sector create serious material shortages.
- Equity and working capital are in short supply, and the government has made only a nominal effort to remedy this situation.
- The government continues to intervene in matters of price setting, licenses, the import of machinery or raw materials, and employment policy.
- The application of policies is highly inconsistent and, on occasion, extremely arbitrary.

Despite these problems, this group favors liberalization. Their main complaints are technical and directed toward the removal of existing constraints. They are also quite outspoken on the new "export-import" class, noting that this type of private-sector behavior undermines the long-range capability of private businessmen to contribute to Egyptian development. Criticism is directed at the manner in which liberalization has been implemented and not liberalization itself.

The nouveau riche, composed primarily of those who are engaged in trade, can only be described as profiteers. Their attitudes and behavior can hardly be considered anything but highly detrimental to the future of liberalization.

It is not sufficient to state that they favor liberalization, for that only captures a degree of their sentiment toward present policy. They have benefited from the new distortions created by the way in which liberalization has been implemented, and they are committed to perpetuating liberalization in that form.

Not all of those who have accumulated large sums of money in recent years have been irresponsible. There are many able and efficient private businessmen engaged in legitimate export-import activities. But a sufficiently large number of profiteers exist to create potentially serious problems for the private sector as a whole.

The main concern of the profiteer is that his opportunity for gain will not continue—especially now that Sadat is no longer at the helm. Although profiteering

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has been relatively open to a wide range of individuals, it is believed that family and/or political connections have had a great deal to do with who obtains the right to act as an import agent. Accordingly, this class of profiteer has no political influence to protect its interests and remains a dependent member in a patron-client relationship.

The Foreign Investment Law set the stage for the type of exploitation evident among this group. It required that all foreign products entering Egypt have a local representative or agent. Ostensibly this provision was to protect the local market from direct foreign producer exploitation. Many believe, however, that this provision was placed in the law precisely because it would increase the opportunities for political patronage.

It is conceivable that the nouveau riche will serve as the scapegoats for the excesses of liberalization permitted under the Sadat regime. Several [redacted] believe that this is already happening. Politically, President Mubarak is not in a position to attack the more influential members of the "Open Door Mafia." Hence, the profiteers—held in considerable contempt by the more responsible members of the private sector as well as society in general—may have to bear the brunt of the measures contemplated by the new administration.

Foreign banks and financial services—the vanguard of foreign investment—have been on the postliberalization scene the longest and still constitute the bulk of projects begun by foreign investors since 1973. The influx of major multinational banks, accounting and auditing firms, investment houses, and other major financial service organizations has had a significant impact. Not only has the private banking and financial service sector been transformed, but the public banking sector has been modernized as well. Nevertheless, extensive criticism has been leveled against this group. In the last few months of the Sadat regime, this segment of the private sector was the target of new reforms designed to reduce foreign exchange speculation and import excesses.

Because it represents the largest component of incoming foreign investment, this group is very influential. Some of its elements have been far more responsible

than others, seeking to provide medium-term capital for the expansion of private-sector projects. Some have actively engaged in open speculation against the national currency. Virtually all have attempted to obtain large foreign currency deposits in order to place these in European money markets at very handsome rates of return. This group clearly has profited from liberalization.

The large number of individuals surveyed in this group claim they have pursued a business policy permitted by liberalization even if such actions did not serve the stated purpose of liberalization. As profit seekers, they did no more than was allowed or might be expected from those engaged in private business. They believe that it would have been naive of the government to assume that they would have done otherwise.

This group is very aware of the danger of a backlash that will severely hamper future business operations. Attitudes and behavior vary with respect to the future, but overall—barring unforeseen action by the new government—the mood is one of guarded optimism.

Nonetheless, there are a number of concerns expressed by members of this group. Business confidence has been shaken by the seemingly arbitrary moves of the government to curb speculation and imports. They believe that the basic problem remains the weak economic management of the government. The private sector makes money as it sees the opportunity arise. If capable management were available and the government reasonable in developing appropriate profitmaking opportunities, then the private sector would respond properly.

According to this group, the evolution of the type of production activity envisioned at the outset of liberalization is severely constrained by the lack of good implementation and management skills in the private sector. No new class of able managers has emerged. Some very capable entrepreneurs and businessmen have returned to Egypt, but not on a very large scale, and they are not able to undertake large, sophisticated

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investment projects. Foreign partners must provide this expertise initially and train their Egyptian counterparts, and the government is obligated to provide the appropriate environment to achieve this.

The representatives of foreign banks and financial services believe that the investment climate is much improved and will continue to improve unless inconsistent policies are pursued. A private business class has emerged that believes in liberalization. Careful direction of their future activity will achieve the kind of productive response that is sought.

The major reforms that the government must undertake include liberalization of the public sector, the phasing out of all subsidies, rationalization of the price system with an improved liberal pricing policy, and liberalization of the foreign exchange market (that is, establish a floating rate). What is not needed are more controls. This reform must be completed in one package, not bit by bit according to the whims of authorities.

All segments of the private sector surveyed are still proponents of liberalization. If they are critical, the criticism is directed at the government for not letting liberalization proceed fast enough. The main drawbacks of liberalization are those brought about by the government itself. If there have been excesses, they have occurred because the government has proved incompetent to stimulate private-sector investment in areas desired.

With the exception of the less responsible elements of the private sector, liberalization has produced a group with a considerable stake in the positive development of the liberalization policy. Politically, they are growing in importance, although like other groups they have not fully developed the means with which to exert political pressure.

Worker Associations

In many ways the onset of liberalization posed the greatest threat to worker interests established during the Nasir era. Worker bonuses, dismissal policy, and separation payments were all issues that the government felt compelled to modify to attract foreign investment to Egypt. Worker rights, however, are guaranteed in the constitution, and the government

did not want to undertake constitutional reform in order to promote private investment. The government initially sought to sidestep the issue by establishing free zones in which foreign firms were permitted to deal with workers on a different basis. Investors, however, demonstrated little interest, and subsequently the government permitted import substitution activities. This meant that the government had to face possible labor opposition to modified terms for workers in foreign private operations or joint ventures.

Pro-Nasir sentiment runs high among industrial workers, and liberalization, by its very nature, is not popular. It is broadly perceived as no more than a thinly disguised policy to dismantle the public sector. Yet, an open confrontation between the government and workers has not taken place.

The government avoided problems by being extremely careful not to antagonize the workers. Whenever workers disapproved of a joint venture or any other proposed project, it was postponed or terminated. Hence, labor unions—relatively weak in any case—have been peaceful, largely because they believe that their interests remain intact. This has not made workers or their unions supporters of liberalization. Instead, government responsiveness to their concerns has reduced substantially the need for workers to take more direct action or a stronger stand against this policy.

Inflation and unequal income distribution are issues that worker associations cannot avoid. Even here, however, the impact on workers has fallen unevenly. Skilled and construction workers have benefited significantly; unskilled and semiskilled public-sector workers have done less well. The government has moved to increase nonwage payments in the case of the latter, to maintain consumer subsidies, and, periodically, to grant worker bonuses, all of which ease worker tensions.

Journalists and Writers

Among journalists and writers there are many views on the effects of liberalization. In general, it is believed that the accumulation of Arab wealth and

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the changed character of the Western-Arab relationship is essentially at the root of the strategy to combine Arab capital with foreign investment in Egypt. The region and its politics changed after 1973. The Arab oil-producing states, and even Egypt in surrogate fashion, saw the opportunity for a new independence born of new wealth and the West's reliance on Middle East oil. In the view [] [] however, the United States believed that the only new element in the relationship was a condition of growing economic interdependence, not the opportunity for the Arabs or Egypt to establish economic independence.

There are inherent contradictions remaining in the Egyptian relationship with the West although Sadat is no longer involved. The main issue is to what extent is integration of Egypt into the Western camp possible. The implications of this are most difficult to deal with. The cultural/religious issue is a major constraint and cannot be overcome simply because the Arab view of the West (that is, as a customer, not a colonial power) has changed. A basic weakness of this altered view is that it is an official belief, not a popular one.

Again, similar to the view held by other groups, journalists believe liberalization is a desirable policy objective if it is protected from foreign influences. As a strategy for social and political development, it has value. As part of a somewhat tortured and erroneous political tactic conceived by Sadat, it was bound to fail.

This group, as one might expect, reacts strongly to restrictions on avenues for expressing dissatisfaction. The opposition to Sadat was not only a matter of ideological or intellectual differences, but also was based on the fact that Sadat was increasingly unwilling to allow the expression of other views in any form.

Women's Groups

Concerns closely allied to those expressed by religious elements are to be found among women's groups. Representatives from a broad spectrum of interests and religious affiliation (and personal interpretation) have identified a number of issues related to liberalization: social and civil morality, child behavior, the changing role of women, the impact of greed and

wealth on community values, health and nutrition, the impact of more women entering the labor force, and the abuse of drugs and medicines. In general, social factors and matters that impinge on the family were most frequently mentioned.

Establishing a set of common observations for this group is difficult because a wide variety of perspectives exists. Primary themes, however, would include the following:

- A major reason why there is not more reaction to the ills of liberalization is, in part, because the opportunities created appear to be open to everyone. Those who are worse off subscribe to the notion that there is always a chance that someone in the family will make it.
- The need to consume is pervasive. The display of goods in the home as a demonstration of wealth is a powerful force underlying increased consumption. Consumption of low nutritional value, high-cost imported foods and drugs, particularly antibiotics, has increased dramatically. Food occupies a special place in the home as a sign of wealth and hospitality and, thus, is hoarded in ever-increasing amounts.
- Middle class women appear to be quite aware of inflation and its effect on their spending power and make the connection between government economic policy, the cost of living, and their standard of living. Furthermore, the greater availability of imported consumer goods has increased middle class appetites and shifted views of what constitutes middle class living. In the past, the working female provided a net addition to the family standard of living and an increase in status. Now, working is perceived as a necessity just to maintain one's economic status in a period when popular perceptions about what constitutes middle class life are shifting upward.
- The lower classes in Egypt are also consuming much more, and the social impact of consumption on these classes may be much greater than on others. For example, the entry of lower class women into the labor market may erode their traditional social roles vis-a-vis husband and family.

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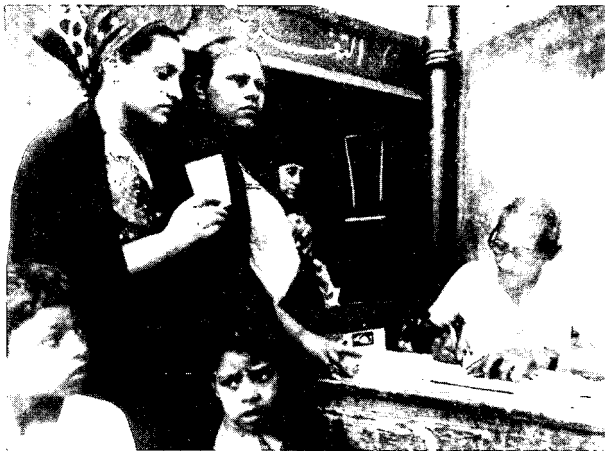


Figure 9. Women voting in the 1981 presidential election.

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- With respect to male migration for employment, the typical candidate is the older married man. Civil servants are usually allowed to go only after long service, and it is viewed as a privilege. Most indications are that migration of the head of family may solidify the family. There is relief from financial tension, the ability to acquire status goods, the ability to keep children in school, and, usually, a new level of investment in the village or community. All of these are positive factors.
- An apolitical response is the most likely outcome from those women who believe strongly that social erosion is setting in. Most women simply want a good life for their families and do not get involved in even the basic rudiments of politics. They do what they always do—"keep up with the Joneses," indulge in competitive family squabbles and gossip, shop, and buy clothes and food. There will be no formal reaction to the negative effects of liberalization because people, and certainly women, feel politically impotent.

The vastly increased number of women in the labor force and the prospect for continued increases as inflation pushes more women into the market deserve additional comment. It is widely believed that this trend, as one outcome of liberalization, may have the most dramatic long-term effect on the Egyptian social structure.



Figure 10. Women in contrast of modern and traditional dress.

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Reflecting the continuation of traditional values in society, most Egyptian working women continue to dress conservatively. Sexual harassment is not yet a problem in the workplace. Added moral protection is provided to many working women by male family members who often take females to seek jobs or to their place of work. A working woman is becoming more marriageable today since economic imperatives have begun to overrule traditional views.

Women are not typically evident in the smaller shop and plant operations. Usually a woman is thought morally vulnerable if she is brought into contact with

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the "street." Civil service and public-sector employment have become respectable and are safe places for women to work. It is the preferable environment if a woman must work, and there are often protective attitudes built into male-female relationships on the job.

So far, there are indications that the net real increase in family income is positive. It is less likely that women in the paid labor force obtain jobs that will allow them to keep pace with inflation over time. This will mean an erosion of real income for most at some point.

The policy of permitting major increases in the availability of consumer goods as a mollifying tactic has for the most part succeeded in stemming major dissatisfaction among women. Although a broad array of social and moral concerns is apparent, these are largely offset by the need and the increased opportunity to consume. In turn, fulfilling the compulsion to consume has set in motion forces (increased female employment and labor migration) that will have a considerable impact on Egyptian society over time. From the political point of view, women appear passive and generally accept the current situation.

Although positive about the increased consumption brought about by liberalization, a question remains for women about what will happen if there are major changes in perceived opportunities or in the availability of consumer goods. Even if women remain passive in such circumstances, the political consequences could be quite severe. The positive attitude of women and the underlying reasons for it have come to represent one more constraint on the government should the government find that it cannot maintain the current state of affairs.

Large Landholders

Liberalization has led to a major change in the amount of land that an individual Egyptian can own. As far as Nile Delta land is concerned, the restriction of some 21 hectares per individual, or about 42 hectares per family, remains in effect. A new law, however, permits an individual to own up to 120 hectares of desert land, and companies up to 20,000

hectares. As a rule, those who have been able to avail themselves of this law consider it quite favorable.

In addition to the prospect of owning reclaimable desert land, the landholdings of many individuals that were seized during the Nasir period have been restored to their original owners. Those in a position to take advantage of this restitution generally are very favorably disposed to liberalization.

The high cost of land reclamation poses some difficulty for those wanting to take advantage of the new ownership rights. It is believed that it will take five to seven years of heavy infrastructural investment to bring reclaimed land into production, and no Egyptian is going to invest in such projects at prevailing interest rates. This has not, however, precluded individuals from staking claims to parcels of desert land. It is anticipated that government subsidies and other incentives will at some point so alter the cost dimension that it will be profitable to fully develop individual and company desert landholdings.

Landholders who have received land under the new law are a potential target of investigation. It is widely believed that a number of individuals received far more than 120 hectares and that large blocks of desert land have been conceded to a few individuals or companies. The threat of investigation, however, does not appear to be a major concern to large landowners.

Finally, those owning the maximum amount of land in the Nile Delta region have enjoyed considerable profits since the advent of liberalization. As the government continues to provide agricultural supplies (for example, seed and fertilizers) at subsidized prices, relatively stable costs and rising prices for agricultural output have increased the profitability of farm operations.

The only concern large landholders have about liberalization is that it may produce a social or political backlash that ultimately could lead to a reversal in current policy. As a group, they favor liberalization since they have clearly profited from the policy. They want that profitability to continue.

Confidential

Political Stability and Policy Change in Post-Sadat Egypt

[redacted] it appears that two critical political issues dominate: social equity and national sovereignty. These issues and the potential political responses to them must be viewed against a backdrop of growing economic concerns: housing shortages, inadequate employment opportunities, and declining services in every area—health, education, water, sewage, and transportation. These in turn are affected by the rapidly growing population.

Nasir's "equity/unity" theme must now be addressed in an atmosphere that many respondents believe to be social and religious deterioration. Religious fundamentalism adds a dimension to political action totally unforeseen in 1973. It underscores the inherent contradiction in the political versus the economic interpretation of the social contract. Mollifying the population by allowing accumulation of wealth and consumer goods, in part to avoid political action, has set in motion a social and religious reaction that is having the opposite effect.

Redress of any sort must now take into account new and powerful proliberalization elements: the "Open Door Mafia," certain professional elites, emigrant workers, and to some extent, the nouveau riche. These groups can be expected to attempt to counter any fundamentalist or ideologically inspired alteration in the liberalization policy.

Although Sadat may have been effective in utilizing competitive forces in society to political advantage in the early stages of liberalization, the forces for political change that have been set in motion are potentially powerful. It is conceivable that the scope of competition within society could be expanded to set one group against another, as opposed to one individual against another. Competition that could threaten the country's social fabric obviously is not attractive to most Egyptians.

The tactic of buying time through a particularly difficult transition by permitting the domestic market to be flooded with consumer goods may have already run its course. This is not to suggest that present or

future levels of consumption do not have to be maintained. The new levels of consumption and the increases anticipated in the future pose a new set of constraints. Redressing the negative impact of liberalization on social equity most probably cannot proceed at the expense of the new standard of living created in the past eight years. Those who have enjoyed it will act to maintain it; those who have not seem to believe that, given enough time, they can obtain their share.

There is little that has changed in the basic capacity of the economy that would permit serving all interests. The prospect is that although the pie is clearly bigger, it is not big enough to establish a concept of social equity at the level of consumption now expected by the Egyptians.

Political Change and the Social Contract

The concept of the social contract can be used to frame the issues related to probable postliberalization political action and political stability. Prior to Sadat's death, there was growing speculation by Western observers and Egyptians alike that his regime could not last without change. No one foresaw his assassination, but a few anticipated that his political demise would occur in a manner somewhat similar to Nasir's after 1967.

The basic contention was that, within three to five years (1983-85), it was reasonable to expect the emergence of destabilizing factors or a disturbance in the economy. This would not necessarily be revolutionary in character or lead to a fundamental change in the character of the economic system. Changes, however, would occur.

The source of this destabilization would be largely internal, not external. Relations with Israel, the on-again, off-again character of US-Soviet detente, the resurgence of Islamic fundamentalism (of the type evident in Iran), or other major international events would not be the main causal factors.

The cause could and most probably would be economic or social, or both. The housing situation and the pressure for employment, particularly given the current rate of population growth and the increasing

25X1

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proportion of young people in the total population, were viewed as extremely likely causal factors. The relatively widespread public information system created by liberalization would make the communication of any disturbances widespread and the need for change accepted. Although it would probably not take on an antiregime character, it would nonetheless mean that new leadership would be necessary.

Mubarak and the Present System

Early indications are that Mubarak has been quick to assess accurately the changed environment in which he must maintain political tranquility. Economic liberalization has caused elements of society to define their political needs differently. This is based on the premise that many Egyptians have become aware of the inconsistencies inherent in economic liberalization without corresponding political liberalization. The appetite for political action has increased because the stakes have increased.

Mubarak's main tactic is designed to engage key potential and existing power groups within Egyptian society in defining the future direction of development policy. He has sought to conduct an informal national referendum, through private conferences and public seminars, to mitigate future criticism of his leadership by engaging the populace in an exercise in national discipline.

So far, key political leaders and groups have responded to this approach. But short-term acquiescence and accommodation cannot be mistaken for long-term agreement on policy. In many respects, the potential opponents of Mubarak have adopted a "wait-and-see" stance. It would be impolitic for them to do otherwise. Since Mubarak has taken no clear stand on controversial issues, it is unwise for them to appear uncooperative at a time of national crisis.

Mubarak cannot, even in the interest of maintaining internal stability, avoid the larger issue: reform of the national economy. There is not enough to go around, and deterioration in housing and services has, in turn, led to pent-up demand that must be satisfied out of future economic resources. Past unmet demands and future unmeetable demands (given the growth in population) will not produce internal stability. Heavy reliance on external resources with strings attached is



Figure 11. Newly elected President Hosni Mubarak taking the oath of office in October 1981.

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not going to assuage rising nationalistic fervor in the near term. Seeking accommodation for such diametrically opposed needs by trying to induce national discipline—a discipline that has been most elusive in the past—is at best problematic.

Political Action: Limitations and Options

The elusiveness of national discipline at present and the reliance in the past on competition to redirect the population away from political action underscore a major weakness in Egyptian political development. It is very difficult to mobilize disparate interests around a common political theme. In the past, mass political action could be achieved in the face of an external threat. It has already been suggested that Nasir politicized the Egyptian public to attain the goals that he sought and that political action in support of the government has been acceptable.

Producing orderly internal political change has not been a process to which either Nasir or Sadat attached priority. In 1975, 1977, and 1981 there have been instances when political forces coalesced to a

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sufficient degree to move the government to action. Public policy, even under Mubarak, is still very much security oriented. Differing views are tolerated up to the point that they touch on the question of security. Since 1973 there have been what one government official described as "lots of little pots bubbling: leftist, fundamentalist, social equity, and social decay." Occasionally, the political activists involved combine. Sadat's dispute with the Bar Association in 1981 is the most recent example of this. Wafdists, Muslim Brethren, Marxists, and independent Nasirist lawyers on the Bar Association Council worked together in strident opposition to Sadat's policies at home and abroad. Sadat dissolved the council in the summer of 1981, declaring it had acted as a political opposition party.

The groups reflect an inclination to be parochial in viewing their political options. For the most part they consider themselves as either apolitical (for example, women's groups or women in general) or lacking sufficient political experience to preserve or promote their political interests (for example, the private sector broadly defined). If action is contemplated, it can take the form of individual or limited group mobilization for a very specific grievance, a particular privilege (for example, through Presidential Decree), or interpretation of a policy in their interest. Their political actions are very similar to those apparent in the competition for consumer goods and income opportunities created under liberalization.

The prospect of widespread religious fundamentalism is having two effects. It alarms both government and those elements in society unsympathetic to the aims of the fundamentalists because it is an extremely attractive common ground upon which large numbers of Egyptians could choose to meet for political action. In turn, it has underscored the need for other groups to seek to form their own effective means of political action either to combat the influence of the fundamentalists or, at the very least, to preserve their interests.

Mubarak is thus confronted with a situation that is decidedly different from that faced by Nasir or Sadat. Liberalization has had the broad effect of increasing political awareness or the need to be politically aware. The freer flow of information, both internally and

externally, has sharply increased the likelihood of the rapid transmission of news about events that may induce political action. The lack of experience of those who may feel the need to undertake political action increases the likelihood of a major error in judgment either by those initiating the action or the government in responding (for example, Sadat's crackdown).

Altering the Liberalization Policy To Reduce Political Tensions

Sadat interpreted and implemented liberalization in a manner consistent with his analysis of the forces at work in Egyptian society that might produce instability. His tactics produced both the desired effect (initially, at least) as well as a number of unanticipated effects. It is the unanticipated effects with which Mubarak must now deal.

The policies pursued under the broad rubric of liberalization have not moved the economy toward any new, cogent, and coherent system. To date, the government has removed selected controls on private investment, foreign exchange, and trade, but there has been no fundamental change in the economic policies of the past and no decisive turn to a market-oriented allocation of resources and determination of prices and production. What Egypt has accomplished is not really economic liberalization in the technical sense. It is conceivable that incremental policy changes could be moving the economy in that direction, but at present there is no will or inclination to develop policies in a unified direction toward economic democratization. Rather, the approach continues to be crisis-oriented with "band-aids" applied as required. The time for relatively painless alterations of past economic policies is running out.

Yet, for Mubarak, the temptation to rely on the proven precepts of the social contract is very strong as is the logic for doing so. For the most part, present economic and political policies are a continuation of the old policies. On occasion new instruments have been tried. Economic liberalization is seen as a slightly modified set of policies with which to continue to fulfill the bargain (the social contract) struck several decades ago. The core of the economic system, and

25X1

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hence the core of the policy that guides it, remains the same. Whenever policy changes have been advocated and pursued, they have been minor, reflecting a change of heart, not a change in the basic political view of the economy. Thus, such policy changes have not led to much revamping of the existing economic structure.

The Egyptian social contract has worked best in the political sense. Change will only come at the point when circumstances arise in which a new set of relations is required, and it is recognized as being required by the mainstream of Egyptian society. Prior to Sadat's death no one wanted to change or could change these policies even if they wished.

Even if it is assumed that Mubarak is serious about change, it is resisted by both the central government bureaucracy and its periphery. It is simply more efficient to depend on the central bureaucracy, as ineffective as it may be, than to shift decisions to local levels where there will be endless squabbling over the distribution of limited resources. Without developed local political structures, a direct outcome of the character of the social contract, one cannot expect effective, decentralized decisionmaking. Those elements trying to decentralize decisionmaking or charged with its implementation are the very same individuals who are part of the old system.

As for continued external assistance to shore up the internal economic system, the government believes that it is convenient to have in place representatives who can convince outside interests that Egypt is seriously seeking to mend its economic ways. This is the quid pro quo for additional resources necessary to keep the bargain. No policymaker can touch programs such as guaranteed employment of university graduates, bonus systems, consumer subsidies, or subsidies to the public sector. Evidence indicates this is true even when these policies add nothing to the real income of the population.

This is how the Egyptian economy works and will continue to work until a new bargain is struck. It has positive elements, which are not insignificant. The standard of living has improved over the past 30 years. The structure of industry, agriculture, and transportation has improved in real terms. There is, in

general, a capacity to produce more; Egypt's labor force has quality. Performance is not as it should be, however, and there is a slackness and lack of discipline evident even to the casual observer.

Egypt continues to pass up opportunities for restructuring the economy. The reasons for this are to be found in the realm of the political behavior of the country's leaders rather than within the framework of modern development theory. Until Mubarak, there was no internal force interested strongly enough in change to induce change. It is not yet evident that he has the will or ability to alter the conventional wisdom of the past.

If anything, it appears that the new President may rely, however reluctantly, on major elements of the old social contract to meet the exigencies created by liberalization:

- Restoration of the role of the public-enterprise sector as the dominant modernizing force in the economy (allowing a major change in the legal and managerial environment to permit more efficient operation).
- Revitalizing the economic planning function and reducing the impetus for decentralization of economic decisionmaking in the economy (leading to an indirect and presumably more efficient form of planning in which public- and private-sector representatives would have a major role).
- Restoring confidence in the central administration (by eradicating corruption and its causes, reducing turnover in top leadership positions, and relying upon government organizations to conduct the affairs of state rather than interfering in their internal operation).
- Reinterpreting the role of the private sector under liberalization (to provide sharper definition to those areas in which private business will be allowed to operate and redefine the terms under which it will be permitted to conduct operations—for example, the permissible use of foreign exchange, import licenses).

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- Most important, restoring social equity as a major responsibility and goal of the state and altering the client-state relationship between Egypt and any foreign power to restore national sovereignty over policy (by doing all the above).

The political constructs of this approach are less apparent. As yet, Mubarak's program is not a new social contract or even a substantially modified interpretation of that contract. It does not appear to be inspired by recognition that a new set of relations between the government and people is required in which political expression must be allowed and developed in a different form from the past. It may be too early to assess accurately Mubarak's intent in developing the country politically, not just economically.

Mubarak needs to develop a system that fits his particular view of the future of Egypt. It will be very difficult for him to eliminate present conflicts of interest without disrupting the total economy. If some group must pay an inordinate price for major policy reform in the economy, then he must make sure that it is a group that cannot hurt him and will still permit the desired effect of the reform to take place. He must mobilize antifundamentalist feeling in society without appearing to contribute to what many already believe is a decline in the nation's commitment to Islamic culture, and in so doing, he must not appear to be supporting the interests of privileged classes. This is, by any standard, a complex juggling act.

He is perceived as being somewhat free from the legacy of the past: Nasir's, because he was not part of his regime; Sadat's, because he is able to capitalize on the broadly held notion that somehow his and Sadat's liberalization policies are different. One view put forth recently notes that "under Nasir, the people had social justice without democracy; under Sadat, democracy (mostly economic, and only briefly, political) without social justice; perhaps, under Mubarak we will have social justice with democracy."

The same political tactic used by the large mass of Egyptians when faced with foreign domination stands poised for use against Mubarak or any Egyptian leader. Seemingly acquiescent, indifferent, or apolitical, the masses bend before the larger, more powerful force—only to spring up after the force has passed. Civil disobedience, noncompliance, and rioting are political tools in an autocratic society. For Mubarak, the future requires that he not be lulled into preserving national unity by resorting to old methods but chart a course that takes into consideration the awakened political instincts of a much-changed population.



25X1

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